

Los Angeles Co. OFFICE OF ASSESSOR

TO: Alexander Pope
Assessor

FROM: Isidro Delgado, Chief
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SUBJECT: CAL-TAX ARTICLE ON THE SPLIT-ROLL

After reviewing the January Cal-Tax article on the split-roll, several statements and "facts" demand a response. In general, the arguments presented are:

- (1) A shift in the property tax burden from commercial-industrial to single family residential properties has not occurred.
- (2) The split-roll is unsound tax theory.

I. Property tax burden shift has not occurred

In arguing the case that a shift in the property tax burden from CI to SFR properties has not taken place, two major factors have been ignored by Cal-Tax: (1) that assessed values for both CI and SFR include new construction, and (2) that the roll-back to the 1975 value level eliminates a greater amount of inflationary value from residential than from CI properties.

(1) Assessed values compared include new construction

A proper analysis of the shift between SFR and CI property values due to the valuation of transfers should exclude new construction values. If new construction was excluded, the numbers would reveal an even greater shift because commercial-industrial new construction is up while residential is down. In fact, 1980 is the first year that CI new construction has been greater than residential in dollar value and not just percentage.

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(2) The roll-back eliminated greater valuation
from residential properties

The Proposition 13 roll-back to the 1975 value level removed a far greater amount of value due to inflation from residential properties than from CI. A large part of the tremendous surge in residential values that occurred at the end of the decade, since 1975, was removed from the roll. The CI inflation for those years was not nearly as great.

Some arguments in the article against the shift are incorrect and merely serve to obfuscate the main issues. For example:

- (1) The article quotes the SBE as saying that "a portion of the assessed value increase since the passage of Proposition 13 has come from updating of 1975 base year values," and that this was done for residential properties which, therefore, "constitute a greater portion of catch-up valuation." In fact, this is not true for Los Angeles County. Here, we used our best efforts to bring all properties not re-appraised in 1975 up to their proper level.
- (2) A big point is made of adding back the assessed value of the homeowner's exemption to show that net assessed values should not be used in analyzing any shift since "net assessed values of SFR's increase at a faster rate than gross values, since the homeowner's exemption is a constant dollar amount. It is true that this feature (net assessed values) tends to shift the percentage of total taxes towards homes." This is precisely the point. Taxes are paid by property owners on net assessed values and not on gross amounts.
- (3) Another point on homeowner's exemptions made by Cal-Tax is that "the Board (SBE) shows a strong shift away from properties receiving the homeowner's exemption in 1979-80." While the numbers are correct, it is erroneous to assume that the



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remaining SFRs without HOX are income properties. Therefore, the conclusion by Cal-Tax that "this is, therefore, a more accurate representation of an assessed value shift between business and non-business properties" is incorrect. In Los Angeles County we have approximately 100,000 parcels that are owner-occupied which do not claim the HOX. (There are several possible reasons for this. The fact that the amount of HOX in tax savings has dropped from approximately \$250 to well under \$100 may cause some people not to bother to file. (They no longer receive the annual HOX mailing as a reminder.) Another possibility may be that some people are improperly claiming the \$137 renter's credit rather than the smaller HOX amount.)

II. Split-Roll unsound tax theory

The Cal-Tax arguments against a split-roll are that "introduction of a split-roll system is an irrevocable step that leads to proliferation of illogical tax treatment and that a split-roll shifts and disguises tax burden every time a new class is created or a new ratio is adopted."

Cal-Tax bases this argument primarily on a study of the property tax system used in Minnesota. Some of the reasons given in the article are listed below -- with our comments.

(1) Complexity

- (a) A major reason for the complexity and "proliferation of illogical tax treatment" in the Minnesota system is because it is legislative and can be changed annually.

The proposed changes here would be constitutional and require a vote of the people to be further changed.

- (b) "With the general erosion of the property tax base and with business properties assessed

at 43% of market value, Minnesota has little financing flexibility left within the property tax."

Minnesota has a per capita property tax which is much higher than California, despite their fancy classification system. They would, therefore, seem to have more rather than less ability to change as Cal-Tax asserts.

- (c) "A split roll is administratively complex and costly."

Our classification of what constitutes a change in ownership under Proposition 13 is at least as expensive to administer as the Minnesota classification system. This could be entirely repealed for CI property if a split roll were adopted.

(2) CI property tax shift to consumer

"A split-roll can result in higher costs for consumer goods and services, regressively shifting costs from the tax structure to the price structure."

The competitive nature of the marketplace may preclude companies from automatically increasing their prices for goods and services. Also, people have more control over consumer spending than they do over housing, and can adjust those levels of spending much more flexibly than they can for property taxes.

Conclusion

Aside from all the statistical arguments for or against a property tax shift, there is an intrinsic reason why a tax shift from commercial-industrial to residential properties has and will continue to occur. It is a fact that single family residences have been increasing in value faster than commercial-industrial properties and that single family residences have transferred more often than the larger commercial-industrial properties. It is highly unlikely that those historical trends will not continue into the future.

In addition, contrary to the assumption underlying Cal-Tax's whole argument, California already has a split roll.

- (a) Properties that transfer after 1975 are taxed on a different basis than those that have not transferred. In many cases, new home buyers are paying several times more than their neighbors.
- (b) Several other classes of properties are taxed on still different bases. The most important are: (1) under the Williamson Act, agricultural properties are valued on an income basis only; (2) state-assessed properties and business personal properties are valued at market value; and (3) business inventory is totally exempt.

The real issue is: who is the split to favor. The current system favors business and agricultural property. A cyclical reappraisal system for commercial and industrial properties would tend toward equalization of the property tax burden and maintain the existing balance between residential and business property.



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